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**February 22, 2007**

**Adolphus Okeke, Interim Deputy Director**  
Community Development and Housing Department  
290 North D Street, Sixth Floor  
San Bernardino, CA 92415-0040

**SUBJECT: AUDIT OF THE HOUSING TRUST FUND**

## **Introductory Remarks**

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and in adherence to the directive issued by the Grand Jury of San Bernardino County, we have completed an operational audit of the Housing Trust Fund managed by the Community Development and Housing Department. Our audit was conducted in accordance with the standards developed by the International Standards for the Professional Practice of Internal Auditing.

## **Background**

The Community Development and Housing Department provides monitoring compliance services for the Multi-Family Mortgage Revenue Bonds issued by both the County of San Bernardino and the Housing Authority. The monitoring compliance services consist of collecting the Administrative Fees from the bond trustees and conducting property field visits as means of monitoring the required income limitations for those properties associated with the Multi-Family Mortgage Revenue Bonds. The field visits mandated by the regulatory agreements are an essential part of the monitoring process, as they help to ensure that the property owners are in compliance with the income criteria stipulated in the bond agreements. Currently, the value of the bonds totaled to be \$221,533,061.

## **Scope of Audit**

Our objective was to determine whether the Housing Trust Fund has been effectively managed and the financial records were accurate. Specifically:

- We reviewed disbursements for the time period between July 1, 2006 through December 31, 2006 to determine if the funds were utilized on eligible activities.
- We examined all active bond agreements maintained by the Department to determine if the revenue received for the monitoring compliance services was accurately stated.
- We reviewed transactions, such as revenue received from sources other than bond trustees, and journal voucher entries, for the time period of July 1, 2006 through December 31, 2006, to determine if the nature of the activity was considered to be appropriate.

### **Overall Conclusion**

We concluded the Housing Trust Fund was effectively managed and the financial records were accurately stated. However, we noted several recommendations that we deem are necessary to improve the internal controls of the Department.

### **Findings and Recommendations**

The specific policies, procedures, and practices that need improvement are discussed below.

#### **Finding 1: There were no formal management review procedures to validate Housing Trust Fund financial reporting.**

Good internal controls would indicate that management has a formal review of work conducted by their staff to verify completeness and accuracy, and their review is evidenced by their initials and date.

The Department currently has not established and implemented a process in which management reviews the work assigned to their staff preparing Housing Trust Fund financial reports.

If the Department does not implement and maintain a formal work review process, the risk of incomplete and inaccurate financial reporting greatly increases.

#### **Recommendation 1:**

The Community Development and Housing Department Director should immediately establish and implement a formal review process in which the Department's staff will be required to submit their completed work assignments to a level of management for a formal review. Management should sign and date the staff's work to indicate that they have actually reviewed the work assignments.

**Finding 1:** There were no formal management review procedures to validate Housing Trust Fund financial reporting. - *Continued*

**Management's Response:**

We concur. Even though management has been reviewing staff's work we have not formalized the review process. As of May 31, 2007 all monthly reports produced by staff will include a section for the staff who prepared the report to sign as well as the supervisor. In the upper right hand corner of the report there will be a section for staff and supervisor signature, which will provide evidence that the report was reviewed. The department will keep a copy of the original report so future internal auditors can review it.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Finding 2:** Only one person in the Department was knowledgeable of the Accounts Receivable Housing Trust Fund duties.

Good internal controls requires a Department to have more than one staff member trained to perform basic job functions when key personnel are absent for an extended period of time.

At the present time, the Department does not have any staff cross-trained to perform the duties of the Housing Trust Fund Accounts Receivable job function.

Allowing only one staff member to be solely responsible for the Accounts Receivable job functions can negatively impact the accounting process. If the only individual trained to perform the Accounts Receivable duties, were to be absent for an extended period of time, the Accounts Receivable functions would be seriously impacted. As a result, the monthly aging reports, which totaled to be approximately \$39,680 as of December 31, 2006, would not be updated and the account reconciliations would not be performed in a timely manner.

**Recommendation 2:**

The Community Development and Housing Department Director should ensure several staff members are trained on how to perform the Housing Trust Fund Accounts Receivable job functions.

**Finding 2: Only one person in the Department was knowledgeable of the Accounts Receivable Housing Trust Fund duties. – Continued**

**Management's Response:**

We concur. The Department has instituted a training program with staff members of the Administrative Services Section. They will be fully trained by June 30, 2007 to be able to perform the Housing Trust Fund Accounts Receivable job functions. A procedure manual has been updated and distributed to the back up personnel. A copy of the manual will accompany this response.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit. A follow-up review will be conducted during the next audit cycle.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_

**Howard M. Ochi, CPA**  
Chief Deputy Auditor

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